

FDIC State Profile

Spring 2006

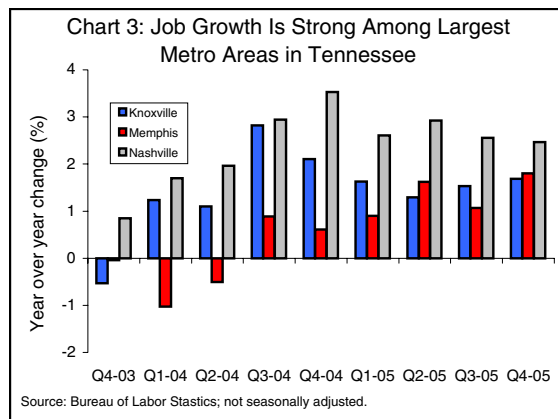
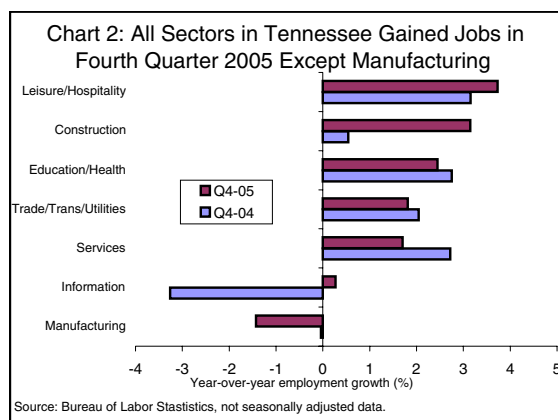
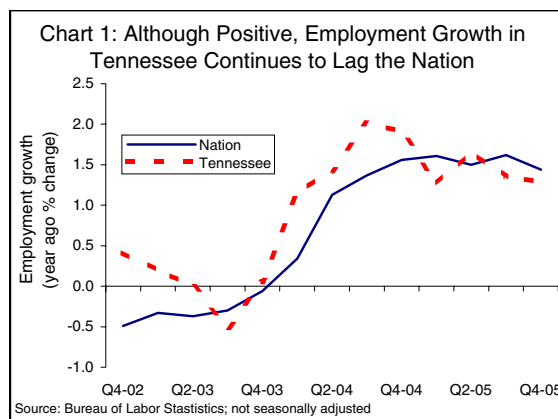
Tennessee

Employment growth in Tennessee remained positive in 2005.

- Employment levels in Tennessee increased approximately 35,000 in fourth quarter 2005 from one year ago. Although positive, the 1.3 percent increase in the state's employment levels lagged national employment growth of 1.4 percent during the same period (see Chart 1).
- Most of the state's sectors added jobs during the quarter. However, job losses continued in Tennessee's manufacturing sector with nearly 6,000 jobs lost during the year (see Chart 2). These job losses were located primarily in the state's rural areas.
- Metropolitan areas in Tennessee reported strong job growth, adding slightly more than 43,000 jobs in fourth quarter 2005 from one year ago, while the state's rural counties lost nearly 8,000 jobs. Employment gains in the **Knoxville, Memphis, and Nashville** metro areas represented 80 percent of all metro area job gains, and growth in these areas exceeded the overall state growth (see Chart 3).¹ In Knoxville, the leisure and hospitality sector led employment gains, while the professional and business, and retail sectors, led gains in Memphis and Nashville.

Reported past-due loan levels continue to decline for most segments of bank loan portfolios.

- Nearly two-thirds of all insured institutions in Tennessee reported improving past-due ratios during the past two years. The median past-due ratio for insured institutions headquartered in Tennessee was 1.7 percent in fourth quarter 2005, compared with 1.8 percent one year ago, and 2.4 percent two years ago (see Chart 4). Unlike job performance, the improvement in past-due ratios was evenly distributed between insured institutions in rural and metropolitan areas.
- Except for residential mortgages, which represent 29 percent of total loans, credit quality improved in almost every lending category. The past-due rate on residential



¹Job gains in Knoxville, Memphis, and Nashville are comparable to the share of total jobs in the state.

mortgages increased 40 basis points to 2.12 percent in fourth quarter 2005 from one year ago primarily due to normal seasoning with past-due rates that are no longer being muted by high volumes of new loans.

Earnings remain near record highs.

- Net income among established community insured institutions headquartered in Tennessee reached \$410 million in fourth quarter 2005, down slightly from a historic high of \$442 million in third quarter 2005 (see Chart 5).² The median return on assets (ROA) for established community insured institutions headquartered in Tennessee was 1.02 percent in fourth quarter 2005, up from 0.98 percent one year ago. The most recent peak in median ROA was 1.14 percent in third quarter 2002.
- Declines in provision and overhead expenses and higher levels of noninterest income were primarily responsible for the recent increase in ROA among established community insured institutions.

The flattening yield curve may negatively affect net interest margins (NIMs).

- The median NIM among community insured institutions in Tennessee slid to 4.18 percent in fourth quarter 2005, down from 4.23 percent one year ago. This decline in margin was primarily the result of funding costs rising faster than asset yields during the year (see Chart 6).
- The yield curve spread between long- and short-term interest rates has narrowed considerably since June 2004.³ Flat or inverted yield curve spreads historically have been associated with an eventual narrowing in NIMs as the state's banks typically price their deposits on short-term interest rates while much of the loan portfolio is tied to longer-term interest rates.

Chart 4: Credit Quality Improved in Fourth Quarter 2005 Among Insured Institutions in Tennessee

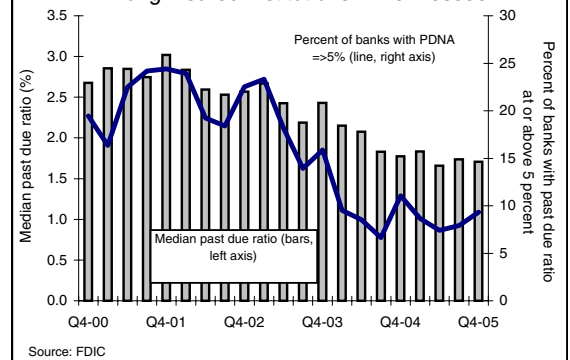


Chart 5: Near Record Levels of Income Continue for Insured Institutions Headquartered in Tennessee

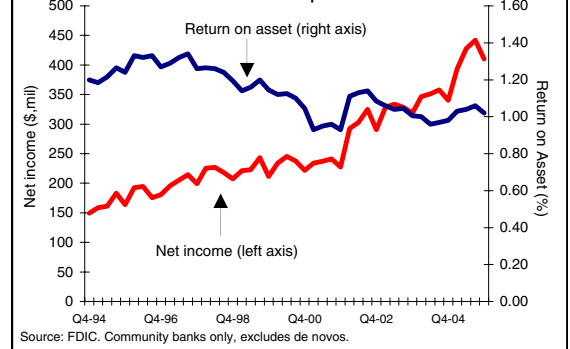
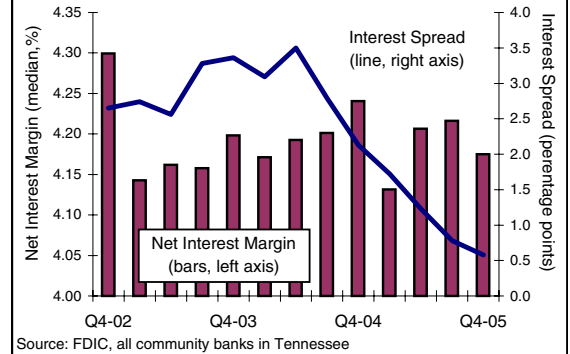


Chart 6: Net Interest Margins May Compress in the Current Flat Yield Curve Environment



²Established community insured institutions are defined as those in existence for more than three years with less than \$1 billion in total assets.

³The yield curve spread is defined here as the difference between the 10-year Treasury note and 3-month Treasury bill, both at constant maturity. The spread was 350 basis points at the end of second quarter 2004 and narrowed to 60 basis points at year-end 2005.

Tennessee at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.3%	1.4%	1.9%	1.6%	-0.1%
Manufacturing (15%)	-1.4%	-1.6%	0.0%	-0.3%	-3.6%
Other (non-manufacturing) Goods-Producing (5%)	3.2%	3.5%	0.4%	1.3%	0.1%
Private Service-Producing (65%)	2.1%	2.2%	2.7%	2.3%	0.7%
Government (15%)	0.1%	0.2%	0.9%	1.0%	0.2%
Unemployment Rate (% of labor force)	5.5	5.5	5.7	5.5	5.7
Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	5.3%	6.9%	5.9%	4.4%
Single-Family Home Permits	8.5%	7.4%	7.5%	13.9%	10.2%
Multifamily Building Permits	-7.9%	10.4%	-26.8%	45.7%	0.0%
Existing Home Sales	8.9%	10.4%	15.8%	21.2%	15.0%
Home Price Index	8.1%	7.6%	5.1%	4.4%	3.5%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	11.14	12.06	9.36	10.28	11.08

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	204	202	208	208	208
Total Assets (in millions)	82,371	81,673	133,494	133,494	118,572
New Institutions (# < 3 years)	17	16	14	14	13
Subchapter S Institutions	45	44	39	39	38
Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.71	1.74	1.77	1.77	2.43
ALLL/Total Loans (median %)	1.25	1.27	1.31	1.31	1.35
ALLL/Noncurrent Loans (median multiple)	2.48	2.48	2.33	2.33	1.80
Net Loan Losses / Total Loans (median %)	0.13	0.10	0.13	0.15	0.27
Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	9.93	9.98	9.67	9.67	9.38
Return on Assets (median %)	0.94	1.06	0.93	0.94	0.96
Pretax Return on Assets (median %)	1.25	1.49	1.30	1.35	1.39
Net Interest Margin (median %)	4.24	4.24	4.28	4.23	4.19
Yield on Earning Assets (median %)	6.63	6.46	5.97	5.83	6.04
Cost of Funding Earning Assets (median %)	2.41	2.22	1.65	1.54	1.83
Provisions to Avg. Assets (median %)	0.16	0.15	0.19	0.17	0.23
Noninterest Income to Avg. Assets (median %)	0.78	0.81	0.80	0.76	0.79
Overhead to Avg. Assets (median %)	3.26	3.15	3.22	3.16	3.16
Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	69.0	68.7	67.7	67.7	66.8
Noncore Funding to Assets (median %)	23.8	23.7	22.1	22.1	21.0
Long-term Assets to Assets (median %, call filers)	10.5	10.7	13.6	13.6	15.3
Brokered Deposits (number of institutions)	61	60	55	55	46
Brokered Deposits to Assets (median % for those above)	3.3	3.2	2.8	2.8	2.2
Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	77.1	77.4	69.1	69.1	78.1
Commercial Real Estate	234.7	236.0	216.2	216.2	192.7
<i>Construction & Development</i>	65.0	59.9	51.1	51.1	44.0
<i>Multifamily Residential Real Estate</i>	4.8	4.8	5.5	5.5	4.0
<i>Nonresidential Real Estate</i>	132.6	131.8	128.8	128.8	131.7
Residential Real Estate	212.9	211.6	224.5	224.5	227.4
Consumer	55.7	56.4	62.0	62.0	69.3
Agriculture	15.4	16.4	16.0	16.0	14.1

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Memphis, TN-MS-AR	52	26,946	< \$250 million	146 (71.6%)
Nashville-Davidson--Murfreesboro, TN	49	25,208	\$250 million to \$1 billion	50 (24.5%)
Knoxville, TN	27	9,335	\$1 billion to \$10 billion	7 (3.4%)
Chattanooga, TN-GA	26	6,612	> \$10 billion	1 (0.5%)
Kingsport-Bristol-Bristol, TN-VA	26	3,893		